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SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415

APPLICATION OF SOUTHWESTERN ELECTRIC POWER COMPANY FOR AUTHORITY TO CHANGE RATES	**§ § §**	**BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS**

INITIAL BRIEF OF EAST TEXAS ELECTRIC COOPERATIVE, INC. AND NORTHEAST TEXAS ELECTRIC COOPERATIVE, INC.

June 17, 2021

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022

TABLE OF CONTENTS [1]

[1] The sections, subsections, and headings follow the briefing outline agreed to by the parties. Thus, non-sequential numbering results from not every issue being addressed in this brief.

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I. INTRODUCTION AND SUMMARY

All parties agree the Dolet Hills Power Station (Dolet Hills) will retire and cease operating by the end of this year. The parties disagree regarding the appropriate ratemaking treatment for Dolet Hills in light of this early retirement. The Administrative Law Judges and Public Utility Commission of Texas (Commission) should decline to accept Southwestern Electric Power Company's (SWEPCO's) proposed ratemaking treatment for Dolet Hills because it would allow recovery of costs and expenses that are not reasonable and necessary, needlessly intertwines the flow-back of the accumulated deferred income tax (ADIT) liability with Dolet Hills' ratemaking treatment, and produces an accelerated recovery that is contrary to the Commission's precedent.

Under Texas law, an electric utility can recover its operating expenses only if the expenses are reasonable and necessary.[2] Moreover, any rates approved by the Commission must be just and reasonable.[3] In order to meet these requirements, East Texas Electric Cooperative, Inc. (ETEC) and Northeast Texas Electric Cooperative, Inc. (NTEC) witness Steven D. Hunt recommends several adjustments to SWEPCO's proposed revenue requirement, which incorporates the appropriate ratemaking treatment to properly account for the early retirement of Dolet Hills.[4]

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[2] Public Utility Regulatory Act (PURA) § 36.051; 16 Tex. Admin. Code § 25.231(b) (TAC) ("Only those expenses which are reasonable and necessary to provide service to the public shall be included in allowable expenses.")

[3] PURA § 36.051 ("In establishing an electric utility's rates, the regulatory authority shall establish the utility's overall revenues at an amount that will permit the utility a reasonable opportunity to earn a reasonable return on the utility's invested capital used and useful in providing service to the public in excess of the utility's reasonable and necessary operating expenses.")

[4] *See generally* ETEC/NTEC Ex. 1, Direct Testimony of Steven D. Hunt on Behalf of ETEC and NTEC (Hunt Direct).

Specifically, ETEC and NTEC recommend the following adjustments: [5]

1. SWEPCO should flow-back the Excess ADIT Liability (as defined below) over a four-year period and the ratemaking treatment of excess ADIT should be treated as a standalone rate matter rather than tied to the Dolet Hills amortization.
2. SWEPCO should amortize the remaining book value of Dolet Hills over the expected remaining life of assets in its composite depreciation group rather than an accelerated four-year time period.
3. SWEPCO should be required to create a regulatory liability for Dolet Hills' operating costs included in revenue requirement that are recovered after Dolet Hills is retired and ceases operating.
4. SWEPCO should not recover the estimated costs of Dolet Hills' abandonment and demolition until the next rate case when costs become known.
5. SWEPCO should exclude the $1,909,171 increase to depreciation expense for Dolet Hills because the increase is unsupported and unnecessary.

The effect of these recommendations on SWEPCO's rates and revenue requirement is summarized below as well as the table included as Attachment A.

	Adjustment	Rate effect
1	Flow-back Excess ADIT Liability over a four-year period.	No impact.
2	Amortize the remaining net book value of Dolet Hills over 33 years rather than four years.	$6.7 million decrease to the revenue requirement.
3	Deferral of the estimated abandonment and demolition costs.	$3.7 million decrease to the revenue requirement.
4	Regulatory liability for certain Dolet Hills post-retirement operating costs.	No impact.
5	Exclusion of increase to Dolet Hills depreciation expense.	$1.9 million decrease to the revenue requirement.

[5] Hunt Direct at 5, 15-16.

II. INVESTED CAPITAL - RATE BASE

A. Generation, Transmission, and Distribution Capital Investment

1. Dolet Hills Power Station [PO Issues 67, 68, 69, 70, 71] [6]

Standard cost-of-service ratemaking principles permit the utility a reasonable opportunity to earn a reasonable return on the utility's invested capital that is used and useful in providing service to the public in addition to recovery of reasonable and necessary operating expenses. This "used and useful" principle generally matches recovery of asset costs with the time period those assets provide service.[7] Once utility plant assets are abandoned and no longer providing service, the costs are normally excluded from rate determinations.[8] This default rule ensures that costs and benefits are roughly aligned for ratepayers.

As an exception to the general used and useful principle, the Commission may permit certain ratemaking treatment for unrecovered investments in retired assets in special circumstances, such as the prudent premature retirement of a generating plant.[9] For example, in SWEPCO's recent base rate case, SWEPCO had recently retired Welsh unit 2 prematurely.[10]

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[6] ETEC and NTEC do not take a position on whether the decision to retire Dolet Hills by December 31, 2021 is prudent (PO Issue No. 67). For the sake of argument in this brief, ETEC and NTEC will assume that SWEPCO's decision is found to be prudent.

[7] *See, e.g* , PURA 36.051 ("In establishing an electric utility's rates, the regulatory authority shall establish the utility's overall revenues at an amount that will permit the utility a reasonable opportunity to earn a reasonable return on the utility's invested capital used and useful in providing service to the public in excess of the utility's reasonable and necessary operating expenses."); Hunt Direct at 8.

[8] Hunt Direct at 8-9.

[9] Hunt Direct at 9; Tr (Hunt Direct) 322: 13-323: 7 (May 20, 2021) (Q: And why should the plain language of the PUC or FERC rules on depreciation not dictate the ratemaking treatment of Dolet Hills? A: It should not because the practice application of those accounting rules in the rate study does – does give way for the rate setting to ensure that those costs are just and reasonable and are in the public interest. And so there are situations where plants are retired early or before its fully depreciated, and the FERC accounting rules and also the State Commission precedent has allowed for a different treatment rather than accelerating the depreciation in rates and results in rate shock to [] the customers. And so most regulatory – most, if not all, regulators would not allow for accelerated depreciation in one year or less due to an early retirement because of the rate effect and will, therefore, have a regulatory construction that will allow that cost to be determined how it will be recovered in future rates over a reasonable period of time."); Tr. (SWEPCO Witness Baird Rebuttal) 472:21-473:5 (May 20, 2021) ("Q: Would you agree with me that the Commission could order a different treatment [for Dolet Hills] than called for by the GAAP standard that you cite here? A: It's happened in the past. Q: And it could happen in this case. Right? A: Yeah. It could happen, yeah. Q: And, in fact, SWEPCO's proposal doesn't comply with this GAAP standard either. Right? A: In the sense of the 4-year proposal, that's correct.").

[10] Docket No. 46449, *Application of Southwestern Electric Power Company for Authority to Change Rates*, Order on Rehearing at 18-20 (Mar. 19, 2018) (46449 Order on Rehearing).

There, the Commission allowed SWEPCO to recover a return of, but not on, its remaining investment in Welsh unit 2 over the 24-year remaining lives of Welsh units 1 and 3 (*i.e.*, its sister plants).[11] In this case, SWEPCO has decided to retire Dolet Hills prematurely, stating this retirement is a prudent management decision. ETEC and NTEC do not take a position on this statement, but will assume it is correct for the sake of argument in this brief.

Based on this early retirement, SWEPCO seeks an accelerated recovery of its remaining (*i.e.*, undepreciated) investment in Dolet Hills. SWEPCO presents the Commission with the false dichotomy of (1) allowing SWEPCO to recover the remaining balance of Dolet Hills over the next several months, or (2) allowing SWEPCO to recover the remaining balance of Dolet Hills over the next four years.[12] As explained below, however, these are not the only ratemaking options available to the Commission.

SWEPCO's recommended proposal is to begin recovering its estimated unrecovered investment in Dolet Hills as early as April 2021, the effective date of the new proposed rate.[13] And SWEPCO would continue to recover the remaining balance over an accelerated four-year time period.

Although SWEPCO proposed to begin its accelerated recovery of Dolet Hills in April 2021, Dolet Hills was still operating and in service.[14] In fact, SWEPCO expects to continue to operate Dolet Hills through the peak energy season but no later than December 31, 2021.[15] Accordingly, SWEPCO intends to begin this accelerated recovery of the remaining book value of Dolet Hills while the plant is still in service. And at the same time, SWEPCO would recover the regular depreciation expense, operation and maintenance (O&M) expense, and return on Dolet Hills.[16]

SWEPCO's recommended ratemaking treatment for both the rate base and operating expenses associated with Dolet Hills is improper. The operating expenses are discussed in the Section IV (Expenses) further below. Because Dolet Hills is still in service, SWEPCO should not

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[11] 46449 Order on Rehearing at 18-20.

[12] SWEPCO Ex. 4, Direct Testimony of Thomas Brice at 7-8.

[13] Hunt Direct at 9.

[14] Hunt Direct at 9; Tr. (Brice Direct) at 71:22-72:1(May 19, 2021) ("Q: Sure. Sure. I was just asking you: That's the impact of when you filed, is that Dolet Hills Power Station will be in operation in the rate year but for less than a year. Is that right? A: Yes, sir, that – that is true.").

[15] Hunt Direct at 9.

[16] Hunt Direct at 9.

commence the accelerated recovery of the remaining value of Dolet Hills—such special ratemaking treatment should wait until the plant is actually retired and abandoned.[17] Accordingly, SWEPCO should seek recovery of the remaining book value of Dolet Hills in its next base rate case after the plant is retired.[18] ETEC and NTEC present an alternative proposal below for consideration if the Commission is inclined to grant special ratemaking treatment given the imminent retirement of Dolet Hills.

If the Commission decides to approve specific ratemaking treatment for the recovery of the remaining book value of Dolet Hills in the current rate proceeding, there are several considerations necessary to ensure the resulting rate is just and reasonable.[19] First, the appropriate length of time for the amortization should be determined. SWEPCO proposes to recover the remaining balance of Dolet Hills, approximately $45,364,633, over a four-year amortization period. The annual rate effect would be a rate increase of more than $11.3 million.[20] In its application, however, SWEPCO mischaracterizes the rate effect as only $3.7 million annually by masking the true rate impact by using the Excess ADIT Liability amortization to offset the increase.[21] The rate increase associated with Dolet Hills and the rate decrease associated with the Excess ADIT Liability are wholly independent events. As such, they need not be combined. The proper, independent flow-back of the ADIT Liability is discussed below under Subsection C.2 (Excess ADFIT). Instead of an accelerated four-year period, the Commission should follow its precedent and set a reasonably extended length of time based on sound ratemaking and policy principles.

In SWEPCO's most recent rate case, Docket No. 46449, SWEPCO proposed to recover the remaining book value of the Welsh unit 2, which was retired in April 2016.[22] The Commission found it was reasonable for SWEPCO to recover the remaining undepreciated balance of Welsh unit 2 over the 24-year remaining lives of Welsh units 1 and 3.[23] In reaching this conclusion, the

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[17] Hunt Direct at 9.

[18] Hunt Direct at 9.

[19] Hunt Direct at 9 (Hunt Direct); PURA 36.003(a) ("The regulatory authority shall ensure that each rate an electric utility or two or more electric utilities jointly make, demand, or receive is just and reasonable.")

[20] Hunt Direct at 12.

[21] Hunt Direct at 12.

[22] Hunt Direct at 11.

[23] Hunt Direct at 11; Notably, SWEPCO's early retirement of Dolet Hills is a similar timeframe as the Welsh unit 2 early retirement, *see* Tr. (SWEPCO Witness Brice Direct) at 106:19-22 (May 19, 2021) ("Q: I understand, Mr. Brice, but to my question, just the simple question: The retirement date [for Dolet Hills] was moved up 25 years, from 2046 to 2021. Correct? A: Yes, sir, that's correct.").

Commission noted that the Welsh unit 2 facility was no longer producing electricity and was not used and useful.[24] The Commission determined that allowing SWEPCO to have a return of, but not on, its remaining investment fairly balanced the interest of ratepayers and shareholders.[25] Accordingly, the Commission found the recovery of the undepreciated balance of prematurely retired plant over the average remaining life of similar assets was reasonable and appropriate, after concluding the retirement was prudent.[26]

As ETEC/NTEC witness Mr. Hunt testified, this precedent harmonizes with FERC's accounting requirements. Under the accounting requirements of the FERC Uniform System of Accounts, a plant retirement is recorded by decreasing the plant asset account (FERC Account 101) by the original cost of the asset and increasing the accumulated depreciation account (FERC Account 108) by the same amount. Additionally, any net salvage costs associated with the retired asset is recorded in the accumulated depreciation account.[27] The Commission has explained that the result of this accounting is that the amount of plant investment and net salvage costs not recovered through depreciation expenses remains on the company's books as a reduction (debit balance) to accumulated depreciation.[28] As such, the amount is incorporated in future determinations of depreciation on the composite group of assets over its average remaining life.[29] When there are significant unrecovered costs of a prematurely retired asset, the FERC Uniform System of Accounts permits the unrecovered costs to be recorded as a regulatory asset when specifically approved by the Commission.[30]

SWEPCO proposes to treat the remaining book value of Dolet Hills as a regulatory asset. However, SWEPCO's preference to record the cost as a regulatory asset should not result in an acceleration of the amortization period compared to the rate effect of recording the unrecovered amount in accumulated depreciation.[31] Accordingly, ETEC and NTEC recommend the

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[24] 46449 Order on Rehearing at 18-20; Hunt Direct at 11.

[25] 46449 Order on Rehearing at 18-20; Hunt Direct at 11.

[26] Hunt Direct at 11.

[27] *See* 18 C.F.R. Part 101, Electric Plant Instruction No. 10, Additions and Retirements of Electric Plant; *See also* Hunt Direct at 9.

[28] 46449 Order on Rehearing at 20.

[29] Hunt Direct at 10.

[30] Hunt Direct at 10.

[31] Hunt Direct at 10.

Commission conclude that the remaining book value of Dolet Hills should be amortized over the average remaining life of the composite group for coal and lignite fired generating assets.[32]

SWEPCO depreciates its generating assets under the composite method of depreciation using the Average Remaining Life Method.[33] According to SWEPCO, the Average Remaining Life method recovers the original cost of the plant, adjusted for net salvage, less accumulated depreciation over the average remaining life of the plant.[34] The composite depreciation rate is based on an average service life for all depreciable assets in the group.[35] The use of an average service life assumes automatically that some assets in the group will have an actual service life shorter than the average and so accrue less depreciation than the average, while other assets in the group will have an actual service life longer than the average and so accrue more depreciation than the average.[36] SWEPCO proposes composite depreciation rates for all of its coal and lignite production plant at 2.567 percent or an average remaining life of 39 years.[37] This composite depreciation rate includes in its average a proposed 2.991 percent or average remaining life of 33 years for Dolet Hills.[38] These values provide a meaningful basis for determining an amortization period for the remaining value of Dolet Hills in a manner that is reasonable and consistent with the public interest.[39]

In addition to setting a reasonable amortization length, the Commission should ensure only reasonably known costs are included in the amount to be amortized. For example, the cost of removal and demolition of Dolet Hills should be deferred as a regulatory asset for consideration in a future rate case.[40] This issue is discussed at length in Section IV (Expenses) below.

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[32] Hunt Direct at 10.

[33] SWEPCO Ex. 16, Direct Testimony and Exhibits of Jason Cash at 2.

[34] SWEPCO Ex. 16, Direct Testimony and Exhibits of Jason Cash at 6.

[35] Hunt Direct at 10.

[36] Hunt Direct 10-11.

[37] Hunt Direct at 11.

[38] Hunt Direct at 11.

[39] Hunt Direct at 11.

[40] Hunt Direct at 9.

C. Accumulated Deferred Federal Income Tax [PO Issues 20]

2. Excess ADFIT

In its application, SWEPCO determined the amount of excess accumulated deferred income tax (ADIT) resulting from the Tax Cuts and Jobs Act of 2017 and calculated the amount relating protected and unprotected ADIT.[41] As of the end of test year, the Texas-jurisdictional portion of protected and unprotected excess ADIT was $121,725,475 and $17,337,163, respectively.[42] SWEPCO proposes to offset the Texas retail portion of the remaining book value of Dolet Hills with two Tax Cut and Jobs Act related regulatory liabilities: (1) the Texas-related balance of unprotected excess ADIT and (2) the Texas-related amount of protected excess ADIT amortized between January 1, 2018 and the anticipated date new rates in this proceeding become effective, *i.e.*, April 2021 (collectively, these two balances are the Excess ADIT Liability).[43] To do this, SWEPCO is seeking to create a regulatory asset to include the remaining book value of Dolet Hills and to reduce that regulatory asset by the Excess ADIT Liability.[44] Any proposal tying the Excess ADIT Liability flow-back to an accelerated recovery of Dolet Hills should be denied.

The amortization period for the remaining book value of Dolet Hills is a separate rate matter that should receive a ratemaking treatment independent of the flow-back of the Excess ADIT Liability.[45] This is because there is no direct relationship between the remaining book value of Dolet Hills and the Excess ADIT Liability.[46] The Commission stated in SWEPCO's last rate case that the regulatory treatment for excess ADIT would be addressed in SWEPCO's next case.[47] Notably, the Commission did not require SWEPCO to use any excess ADIT amounts as an offset to specific proposed recoveries. Instead, the Commission determined the ADIT Liability is

41 SWEPCO Ex. 17, Direct Testimony and Exhibits of David Hodgson at 21-25; SWEPCO Ex. 6, Direct Testimony and Exhibits of Michael Baird at 48-49.

42 SWEPCO Ex. 17, Direct Testimony and Exhibits of David Hodgson at 24.

43 SWEPCO Ex. 17, Direct Testimony and Exhibits of David Hodgson at 22; SWEPCO Ex. 6, Direct Testimony and Exhibits of Michael Baird at 23, 48-49, 53-54.

44 Hunt Direct at 5.

45 Hunt Direct at 8.

46 Tr. (SWEPCO Witness Baird Direct) 120:14-18 (May 19, 2021) ("Q: Okay. And, again, that EDIT refund is something that would go to ratepayers whether or not it's used to offset the Dolet Hills Power Station remaining net book value. Right? A: Yes"); Hunt Direct at 12.

47 46449 Order on Rehearing at 58, Ordering Paragraph 10.

required to be addressed (and returned to customers as appropriate) in this rate case regardless of the early retirement of Dolet Hills.[48]

Treating the Excess ADIT Liability separately from the computation of the remaining book value of Dolet Hills should not change the timing of Excess ADIT Liability flow-back for SWEPCO. The Excess ADIT Liability is eligible to be refunded to customers as soon as practicable without any risks for violating the normalization requirements of the Internal Revenue Code.[49] Given SWEPCO has indicated that the anticipated time between rate cases is four years, it should amortize the Excess ADIT Liability over four years.[50] Additionally, the Excess ADIT Liability should continue to be a reduction to rate base until it is fully returned to customers.[51] With these recommendations adopted, SWEPCO's Excess ADIT Liability will be fully returned to customers before its next rate case.[52]

IV. EXPENSES [PO ISSUES 1, 14, 24, 29, 30, 32, 33, 40, 41, 42, 44, 45, 46, 49, 72, 73, 74]

B. Generation O&M Expense [53]

SWEPCO proposes to include in its rates the entire O&M expense for Dolet Hills, which is approximately $4,605,714 annually for Texas. This O&M expense is in addition to a proposed annual depreciation expense for Dolet Hills of $3,744,724 (addressed below) and a return on its invested capital of $2,194,967. All together, these non-fuel operating expenses total approximately $10,545,405 annually for Texas. If approved and unmitigated, SWEPCO would charge this amount annually until its next base rate case occurs, which it estimates to be in four years. Thus, Texas ratepayers would continue to pay these operating costs for years after Dolet Hills retires.

Generally, the cost of operating assets that are used and useful should be included in cost-of-service rates. In this case, however, the fact that Dolet Hills will be retired five to nine months

48 Hunt Direct at 12.

49 Hunt Direct at 8.

50 SWEPCO Ex. 6, Direct Testimony and Exhibits of Michael Baird at 49.

51 Hunt Direct at 8.

52 Hunt Direct at 8.

53 Except relating to Dolet Hills, ETEC/NTEC take no position on generation O&M expenses.

after the new rates become effective requires some mitigation measures to avoid unreasonable and problematic rate consequences. To solve this problem, the Commission should require SWEPCO to establish a regulatory liability for the non-fuel operating costs included in the revenue requirement related to Dolet Hills from the month the generating station is retired to the effective date of a new base rate. Then, the regulatory liability can be used to offset the regulatory asset created for the remaining book value of Dolet Hills or other costs.

For SWEPCO's proposed rate to be reasonable, it must be assumed that the costs associated with operating Dolet Hills will be replaced with new costs not already factored into the rates in five to nine months after the beginning of the year. Absent this assumption, SWEPCO will continue to charge customers for the operating costs of Dolet Hills after it is retired. In this case, however, SWEPCO has not demonstrated that new costs will arise that will generally displace the operating costs no longer incurred. Therefore, it is necessary to establish a regulatory liability or other ratemaking measure to mitigate the recovery of unreasonable and unnecessary expenses associated with Dolet Hills in rates.

D. Depreciation and Amortization Expense [PO Issue 29] [54]

Dolet Hills Depreciation Expense Increase Should be Denied

SWEPCO proposes to increase its depreciation rate and expense for Dolet Hills by 23 percent.[55] SWEPCO does not explain or justify this the increase to Dolet Hill's depreciation expense.[56] Importantly, this increase to the depreciation rate is not supported by a depreciation study.[57]

The increase in depreciation expense is particularly unwarranted in light of the imminent retirement of Dolet Hills—which may occur before the Commission issues a final order in this case—as well as SWEPCO's proposal to collect the remaining book value of Dolet Hills over an

[54] Except relating to Dolet Hills, ETEC/NTEC take no position on depreciation and amortization expenses.

[55] Hunt Direct at 5.

[56] Hunt Direct at 14.

[57] SWEPCO Ex. 16, Direct Testimony and Exhibits of Jason at 4 ("The Dolet Hills Power Station was not included in the depreciation study and as a result is not included in the Production Plant function depreciation rates proposed in this case.")

accelerated four year period.[58]

As ETEC/NTEC witness Mr. Hunt testified, it would be more reasonable for SWEPCO to continue depreciating Dolet Hills based on the last depreciation study and factor that amount into the net book value included in the calculation of the remaining book value of Dolet Hills.[59] It is unnecessary and unreasonable to increase the depreciation rate for ratemaking purposes for Dolet Hills when it will be retired a few months after the rate year begins.[60] Therefore, the Commission should use the depreciation rate determined in its last rate case.

Dolet Hills Removal And Demolition Costs Should be Deferred

SWEPCO proposes to include approximately $15 million in removal and demolition costs based on estimates.[61] SWEPCO states that it will record the actual cost of removal and salvage proceeds received (net salvage) after the retirement of Dolet Hills to the undepreciated value of the plant.[62] SWEPCO also states that it will record the value of any remaining materials and supplies, spare parts, and other inventory items associated with Dolet Hills after its retirement to the undepreciated value of the plant.[63] As the record makes clear, SWEPCO does not know the actual costs of removal and demolition and will not have an accurate cost or estimate until removal and demolition activity begin.[64] It is therefore inappropriate and premature to include these estimated costs in the proposed rate prior to the retirement of Dolet Hills and the incurrence of the costs.[65] Although some expense will be necessary, including the proposed estimates in rates is unreasonable based on the record evidence. Accordingly, the Commission should allow the actual removal and demolition costs to be deferred as a regulatory asset for consideration in the next rate case to the extent the retirement of Dolet Hills is determined to be prudent.[66]

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[58] SOAH Order No. 2 lists the final order deadline as October 27, 2021 (Nov. 23, 2020). This is well after the peak season.

[59] Hunt Direct at 14.

[60] Hunt Direct at 14.

[61] Hunt Direct at 11.

[62] Hunt Direct at 11.

[63] Hunt Direct at 11.

[64] Hunt Direct at 11-12.

[65] Hunt Direct at 12.

[66] Hunt Direct at 12.

XI. CONCLUSION

For the reasons discussed above, ETEC and NTEC recommend the following: [67]

1. SWEPCO should flow-back the Excess ADIT Liability (as defined below) over a four-year period and the ratemaking treatment of excess ADIT should be treated as a standalone rate matter rather than tied to the Dolet Hills amortization.
2. SWEPCO should amortize the remaining book value of Dolet Hills over the expected remaining life of assets in its composite depreciation group rather than an accelerated four-year time period.
3. SWEPCO should be required to create a regulatory liability for Dolet Hills' operating costs included in revenue requirement that are recovered after Dolet Hills is retired and ceases operating.
4. SWEPCO should not recover the estimated costs of Dolet Hills' abandonment and demolition until the next rate case when costs become known.
5. SWEPCO should exclude the $1,909,171 increase to depreciation expense for Dolet Hills because the increase is unsupported and unnecessary.

The effect of these recommendations on SWEPCO's revenue requirement is included as Attachment A. [68]

[67] Hunt Direct at 6, 15-16.

[68] Hunt Direct at 6, 15-16.

CERTIFICATE OF SERVICE

I certify that a copy of this document will be served on all parties of record on June 17, 2021, in accordance with 16 TAC § 22.74 or as otherwise ordered by the Commission or Administrative Law Judges.

/s/ Jacob Lawler
Jacob J. Lawler

Attachment A

Rate Effect of ETEC/NTEC Recommendations [69]

Adjustment	Rate effect	Comments
Flow-back Excess ADIT Liability over a four-year period.	No impact.	SWEPCO proposed to amortize the Excess ADIT Liability over a four-year period. This adjustment is consistent with SWEPCO's proposal, expect this flow-back occurs irrespective of Dolet Hills ratemaking treatment.
Amortize the remaining net book value of Dolet Hills over 33 years rather than four years.	$6.7 million decrease to the revenue requirement.	This rate effect is calculated as the difference between SWEPCO's proposed 4-year amortization and a recommended 33-year amortization. The amortized amounts include the Texas-portion of Dolet Hills' net book value, or approximately $30.4 million.
Deferral of the estimated abandonment and demolition costs.	$3.7 million decrease to the revenue requirement.	This rate effect represents the exclusion of SWEPCO's proposed 4-year amortization of $15 million in estimated abandonment and demolition costs from the revenue requirement.
Regulatory liability for certain Dolet Hills post-retirement operating costs.	No impact.	No immediate rate effect because SWEPCO will continue to include Dolet Hills operating costs in its rates as proposed. However, after Dolet Hills' retirement, operating costs recoveries will be deferred as a regulatory liability, conservatively estimated at $10.5 million annually.
Exclusion of increase to Dolet Hills depreciation expense.	$1.9 million decrease to the revenue requirement.	This rate effect represents the exclusion of SWEPCO's proposed 23% increase to Dolet Hills' depreciation expense.

[69] ETEC/NTEC Ex. 1, Direct Testimony of Steven D. Hunt on Behalf of ETEC and NTEC at 6 and 15-16 (Hunt Direct).